

DEBT MARKETS

GLOBAL UPDATE

US treasuries yields rose, reversing the bullish trend as the Fed, along with ECB, Bank of Canada, Bank of England, Bank of Japan and Swiss National Bank, announced that it will be lowering the cost of dollar swaps by 50 basis points (it will now be OIS rate plus 50 instead of 100). China lowered its bank reserves requirement by 50bps, as the government seeks to stimulate lending amid political nervousness about the country's economy. Benchmark 10 yrs yields closed at less than 2% for first time in last eight weeks and fell below comparable German bunds. The 10 yrs benchmark yields closed 7 basis points higher at 2.03%. Nymex crude was up by 3.6% for the week and ended at USD 100.26 per barrel.

MACRO ECONOMIC INDICATORS

CSO estimated the GDP growth at factor cost at constant prices for Q2 FY 12 at 6.9% in comparison to 8.4% for Q2 FY 11. The GDP for the quarter is estimated at ₹12,27,254 Cr. Sector-wise, agriculture registered a growth of 3.2%, industries grew at 2.8% while the services sector grew at 8.7%. Mining sector recorded negative growth of 2.9% in Q2 FY 12 compared to 1.8% in Q1 FY 12 and 8% in Q2 FY 11. Manufacturing also recorded a steep fall to 2.7% in Q2 FY 12 compared to 7.2 in Q1 FY 12 and 7.8% in Q2 FY.

The primary articles inflation for the week ended 19-Nov-11 stood at 7.74% compared to 9.08% reported last week. Food inflation eased to 8.00% compared to 9.03% last week, mainly tracking a sharp decline in vegetables while cereals and Egg, Meat & Fish saw a slight decline. On a W-o-W basis primary articles index and food articles index fell 0.74% and 1.41% respectively during the week ended 19-Nov-11 from 0.54% and 0.65%. Fuel inflation was little changed at 15.53% versus 15.49%.

GOVERNMENT SECURITIES AND TREASURY BILLS

G-sec market opened on a cautious note on underlying fears of fiscal slippage as well as lack of clarity on the OMO purchases. However the announcement of buy back of G-sec worth ₹10,000 Cr via OMO on late Tuesday evening lifted the market sentiment. Further, markets rallied getting support from second quarter GDP data which registered below 7% growth indicating that growth is slowing. Reacting to the GDP data, FM Pranab Mukherjee said that growth is not very disappointing taking into account the global context. The FM expressing confidence said that growth momentum will recover some slippage. The Oct-11 core sector growth also reported dismal growth of 0.1% compared to a robust 7.2% in Oct-10. The 10 yrs benchmark security closed lower by 9 basis points at 8.74% tracking weakness in growth. Further the third consecutive weekly and annual fall in the primary articles inflation supported the market sentiment, pulling yields lower. The 8.79% GS 2021 closed the week at ₹100.93 (8.65%) compared to ₹99.85 (8.81%) seen at previous week's closing.

RBI bought back securities worth ₹5,782.96 Cr via OMO purchases. The tendered amount stood at ₹13,461.92 Cr as against the notified amount of ₹10,000 Cr. The cut off price for 7.83% GS 2018 was set at ₹95.94 (8.67%), 8.79% GS 2021 was at ₹100.49 (8.71%), New 19 yrs GS 2040 was set at 8.97%. The G-sec auction worth ₹13,000 Cr was fully subscribed. The T-bill cut-offs for 91 days T-Bill was set at 8.81% and for 364 days T-Bill at 8.45%. The previous cut-offs for these T-Bills were 8.86% for 91-day and 8.85% for 364-days.

LIQUIDITY CALL

Money markets rates broadly moved in a narrow range during the week. Money markets rates eased tracking reduction in liquidity shortfall. RBI infused net average liquidity worth ₹82,582 Cr in this week compared to an infusion of ₹121,192 Cr in previous week. The Call rate ended at an average of 8.50% as compared to 8.68% observed the week earlier. The CBLO average rate moved to 7.32% compared to 8.53% in the previous week.

CORPORATE BONDS

The secondary market activity in corporate bond market saw active market participation. Bonds rallied tracking the rally in G-sec market. The 1 yr bond traded at a yield of around 9.50% compared to 9.65% seen a week earlier. The 10 yrs AAA bond ended at a yield of around 9.55% vs. 9.70% at the end of previous week. The 1 yr CD yield was seen trading at 9.30% compared to 9.75% last week.

In the primary market, PFC got a good response from the market as the issue was fully subscribed on the opening day itself. LIC placed 5 year bonds worth ₹200 Cr at a coupon of 9.70% with a Put/Call option at the end of 13 months. IDFC placed ₹100 Cr of 1 yr 1 day bonds worth ₹100 Cr at a coupon of 9.62%. IL&FS placed 7 and 10 yrs bond worth ₹150 Cr at a coupon of 9.98%. The bond gas a green shoe option of to raise an additional ₹150 Cr. Muthoot Fincorp issued 18 months and 3 yrs bonds worth ₹150 Cr at a coupon of 12.75% on the 18 months and 13.00% on the 3 yrs bond. The bond has green shoe option to raise an additional ₹50 Cr.

RUPEE

The Indian rupee appreciated against USD as the increased risk appetite saw USD getting weaker globally. The buoyant Indian equity market helped INR to appreciate by 2.01% to close the week at 51.21.

FUND MANAGER COMMENTS

The OMO by RBI, the positive response to auction of G-Sec and corporate bond limits to FILs and rumors of a CRR cut supported both the short and long end of yield curve. In the coming week, Market will take cues if RBI announces another OMO to support the market. The 3 months money market rates may come under pressure because of tight liquidity, pushing it back to 8.50% levels. The likely range for the 10 yrs G-Sec would be 8.60-8.80%.

Market Indicators as on 2nd December, 2011

	2/12/2011	25/11/2011	% change
INR/USD	51.21	52.26	-2.01
Oil (\$/bbl)	100.26	96.77	3.61
Gold (\$/oz)	1,746.75	1,683.52	3.76
10 years G-Sec	8.67	8.81	-0.14
10 years AAA	9.70	9.70	0.00
NSE Mibor	8.55	8.68	-0.13

Source: Bloomberg

EQUITY MARKETS

The Fed, along with ECB, Bank of Canada, Bank of England, Bank of Japan and Swiss National Bank, announced that it will be lowering the cost of dollar swaps by 50 basis points (it will now be OIS rate plus 50 instead of 100). This move is designed to increase dollar flow to European banks which are struggling to get short term funding because of their exposure to potential losses on holdings of European Sovereign bonds. This is similar to the coordinated action taken by Central banks post Lehman crisis. This led to massive rallies in equities across globe.

All world major indices closed in green. CAC 40 was up 9.55%, Hang Seng up 7.42%, S&P 500 up 7.41%, Dow Jones up 7.02%, FTSE 100 up 6.29%, Nikkei up 5.36%, Shanghai Comp up 0.28%. Domestic indices also followed global trend with Nifty and Sensex closing with gain of 4.82% and 5.02% respectively. In domestic market, metal sector led the rally with 7.83% gain, oil and gas with 4.85% gain and Bankex with 4.59% gain. Underperformers were consumer durable index with gain of 0.2%, healthcare with 1.76% gain, capital goods with 2.35% gain.

On international news front, Finance ministers from the euro zone agreed to boost the size of their main bail-out fund. But given the general agreement that even the expanded fund would not be able to cope with a request for help from Spain or Italy, further funding options are being explored. The next "make or break" summit will be held on December 8th and 9th 2011.

China lowered its bank reserves requirement by 50bps, as the government seeks to stimulate lending amid political nervousness about the country's economy. Official data showed China's manufacturing sector contracting in November for the

first time since February 2009. China is retuning monetary policy to boost growth; the reserve ratio had been increased numerous times over the past three years as a means of fighting inflation.

Brazil's central bank cut its benchmark interest rate by half a percentage point, to 11%, its third such cut since August as it carries out a policy of "moderate" easing to counter the slowing global economy.

On domestic news front, India's GDP Growth slides in Q2 FY12 on poor business sentiment and high interest rates. There is sharp decline in growth rate of the Industrial sector to 3.2% from 5.1% in the previous quarter, mainly due to slow growth in "mining & quarrying" and "manufacturing" at (2.9)% and 2.7% from 1.8% and 7.2% respectively. Services growth dipped from 10.0% from 9.3% on account of slower growth in "trade, hotels, transport & comm.". "Agriculture" grew at 3.2% from 3.9% in the previous quarter.

Food inflation witnessed a sharp moderation to 8% for the week ended November 19, though prices of most agricultural items, barring potatoes, onions and wheat, continued to rise on an annual basis. Food inflation, as measured by the Wholesale Price Index (WPI), was 9.01% in the previous week ended November 12.

The government issued a clarification saying that multi-brand retailers will have to source minimum 30% supplies from Indian small & medium enterprises having a capital investment of up to \$1 mn. Among guidelines unveiled in its FDI policy, it had said 30% of the value of multi-brand retailers' procurement of manufactured items should be from small & medium enterprises.

Taurus Benchmark Indices Movement

Indices	02/12/11	25/11/11	Points change	% change
BSE Sensex	16846.83	15695.43	1151.40	7.34
S&P CNX Nifty	5050.15	4710.05	340.10	7.22
BSE 100	8696.00	8157.03	538.97	6.61
BSE 200	2034.30	1914.89	119.41	6.24
CNX Midcap	6819.35	6597.70	221.65	3.36
S&P CNX 500 Shariah	1201.52	1143.67	57.85	5.06

Weekly FI & MF Net Flows (₹. in crs.)

25/11/2011-2/12/2011	Equity	Debt
FIs	-1220.20	3528.10
MFs	134.70	12030.00

Source : SEBI site

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